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AN APPEAL

To

The Right Hon'ble

The Secretary of State for India

ON THE QUESTION OF THE

FINANCIAL ADJUSTMENT

Between the Government of India

AND THE

Different Provincial Governments

BY

THE NATIONAL LIBERAL LEAGUE

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To The Right Honourable

William Robert Wellesley Viscount Peel,

P.C., G.B.E.,

SECRETARY OF STATE FOR INDIA IN COUNCIL

My Lord,

I am directed by the Council of the National Liberal League to make the following submissions to your Lordship on the question of the financial adjustment between the Government of India and the different Local Governments with special reference to that of the Local Government of Bengal. The attention of my Council has been drawn to your Lordship's despatch dated London, November 9th 1922 and that of the Government of India dated Simla, July 13th 1922 and the present representation is based upon the said two despatches.

2. The Council of my League accept the position set out in paragraph 10 of the despatch of the Government of India so far as in that paragraph the said Government express the view that "no question of altering in any way the present financial settlement should be considered except by an impartial Committee and after full discussion with each of the provinces." My Council submit that on the facts disclosed in the aforesaid two despatches it has been proved that unless such an enquiry be undertaken by an impartial Committee at a very early date the position of every province in India will be rendered not only very critical but well-nigh impossible.

3. I am directed to submit that on the facts stated in the aforesaid two despatches it is proved and admitted that the estimates on which the report of the Financial Relations Committee is based disclose a situation which makes the position of every provincial Government impossible. Indeed in paragraph 3 of the said despatch of the Government of India it is stated "it will be seen therefore that every province with the exception of Bengal and Burma is at the present moment working on a deficit" and the table set out in paragraph 2 of your Lordship's despatch shows how large that deficit is in the case of some of the provinces.

4. That with regard to Burma I may be permitted to point out that the real deficit as stated in the said despatch of the Government of India is 1 crore and 90 lakhs but as that province has been able to get an additional resource in the shape of 2 crores and odd from its rice control scheme it could show a small surplus.

5. As regards Bengal the small apparent estimated surplus was based on the figures placed before the Government of India in April 1922 but

since then on the six monthly figures of the current year it appears that Bengal's estimated revenue from new taxation instead of being 1 crore and 40 lakhs is likely to be 65 lakhs only, thus resulting in a heavy deficit instead of a small surplus stated in your Lordship's despatch. Bengal had also retrenched (a fact not stated in either of the aforesaid despatches) in the year 1921-22 to the extent of 89½ lakhs and Bengal's contribution of 63 lakhs has also been remitted for a period of 3 years. The above facts with regard to Burma and Bengal prove that these provinces are really no exception to the statement that all the provinces of India are at present working on heavy deficit. I am directed to refer to a memo annexed herewith and marked with the letter A which will show the difference between the real position at the present time and the anticipations of the Financial Committee in March 1920.

6. My Council though primarily interested in the financial position of the Local Government of Bengal are also vitally concerned with a just and equitable solution of the difficulties in the financial position of the Government of India as also of every province of India, for my Council appreciate that successful working of the Reforms and welfare of India generally must depend upon the sound financial position of every province as also of the Government of India. Approaching the problem as our representation does from this wide all-India point of view the Council of my League trust that it will receive a sympathetic and prompt consideration from your Lordship. I am directed to set out in the annexed memo marked B certain facts relevant to the submissions contained in this paragraph.

7. I am directed by my Council to draw your Lordship's attention to the table set out in paragraph 2 of your Lordship's despatch from which it will appear that the total amount of actual deficit is 3 crores and 52 lakhs and that the total amount of new taxation is 2 crores and 81 lakhs making a total of 6 crores and 33 lakhs for all the provinces. On the basis of facts and calculations set out in memo C annexed herewith, it will appear that a total surrender of about 6 crores and 65 lakhs to 7 crores in favour of all the provinces will suffice not only to wipe out the deficit of every province of India but will place each province on a sound footing of financial responsibility. This estimate of 7 crores is about 3 crores lower than the total provincial contribution of 9 crores and 83 lakhs the ultimate remission of which is contemplated in the said two despatches. My Council therefore submit that the ultimate aim, as soon as all-India resources permit, should be to surrender in favour of the different provinces the said sum of 7 crores and not the ultimate remission of the provincial contribution of 9 crores and 83 lakhs. The submission of my Council will place not only the Government of India on a better financial footing (and will thereby relieve the all-India tax-payers to the extent of about 3 crores of rupees) but it will also place the financial position of every province in India on a more just and equitable footing than that contemplated by the remission of the provincial contribution of 9 crores and 83 lakhs mentioned in the said two despatches. Further the suggestion of my Council will be conducive to a satisfactory and much needed development of ideas about financial responsibility with regard to every province in India.

8. I am directed to submit that the allocation of revenues as between the Government of India and the different provinces should proceed on the basis of what is justly due to each province on the transfer of responsibility of certain heads of administration to that province. Before the inauguration of the Reforms there was only one central purse vested in the Secretary of State who was responsible to the British Parliament and who through his agent the Government of India and his sub-agents the different provincial Governments was responsible for the efficient administration of India including the administration of every province. Every single rupee of taxation belonged to this central purse to which every single rupee of expenditure, whether in the Government of India or in any provincial Government, was debitable. On the 3rd of January 1921 portions of responsibility were transferred to the different provincial Governments as subjects for provincial administration set out in part II of Schedule I of the Devolution Rules and for due administration of these provincial subjects every provincial Government was entitled to a transfer of revenues sufficient to carry out these responsibilities on the said date, *i.e.*, on the 3rd of January 1921. The Council of my League submit that each provincial Government is justly entitled to have enough revenues to carry on its sanctioned expenditure on the 3rd January 1921. In the language of paragraph 11 of the report of Lord Meston's Committee on Financial Relations to call upon a "province to embark on new taxation *ad hoc*.....to our mind would be an unthinkable sequel to a purely administrative rearrangement". The unthinkable has come to pass and although in view of the difficulties of the central Government it is not possible that the provinces should be left with any large increased spending power it is not only desirable but necessary that every province should have on the date of the transfer of the responsibility to it enough to carry on its sanctioned expenditure and a small surplus on the said date to meet unforeseen charges on the sanctioned scale of expenditure. In paragraph 17 of the report of Lord Meston's Committee on Financial Relations the total increased spending power left after contribution to the Government of India was 8 crores and 67 lakhs. In view of the difficulties of the central Government it may be expedient to reduce this total increased spending power by about 7 crores 27 lakhs, but it is equally necessary to take into account the sanctioned scale of expenditure on the 3rd January 1921 and not of the years 1918-20 as Lord Meston's Committee have done.

9. The Council of my League have so far approached the question from an all-India point of view. They now desire to draw your Lordship's attention to the peculiar financial difficulties of the province of Bengal, a problem in which they are primarily interested. They beg leave to point out that if the imperial taxes raised within the provincial limit of Bengal be added to the provincial taxes and such taxes be compared to similar figures of other provinces it will appear that Bengal is the most heavily taxed province in the whole of India: that about 70 per cent. of taxes raised within the province are taken away for the benefit of the central Government: that on the scale of the sanctioned expenditure prevailing before the promulgation of the Reforms Bengal's expenditure per head of population was lower than that of most of the other provinces: that as compared with other provinces of India the bulk of the population of Bengal was most hard

hit by the war and at the present time it is difficult for Bengal to submit to further taxation : that the heavy administration charges for the town and port of Calcutta is a severe drain on the provincial exchequer, although on the efficient administration of that town and port depends the successful realisation of about 25 crores of rupees of all-India taxation. I am directed to refer to a memo annexed herewith and marked with the letter D with regard to certain facts relevant to the submissions contained in this paragraph. It would appear from the facts set out in this paragraph as also in the said memo that although Bengal is the most heavily taxed province in India and although she contributes most largely to the central Government and although she has retrenched and taxed more heavily than any provincial Government in India has hitherto done her deficit of 66 lakhs is larger than the deficit of any other provincial Government : that far from realising the anticipations of Lord Meston's Committee about her increased spending power of 41 lakhs of rupees after paying the imperial contribution of 63 lakhs she has really on the six-monthly figures of this year a decreased spending power of 2 crores and 83½ lakhs which shows that the difference between Lord Meston's anticipations and the actual state of affairs in Bengal on the six-monthly figures of 1922-23 amounts to 3 crores and 24½ lakhs.

10. The Council of my League submit that an impartial Committee be forthwith appointed to settle the question of the consideration of the allocation of revenue as between the Government of India and the different provinces after full discussion with the Government of India and each of the provinces; that the points of reference of that Committee should *inter alia* be to determine :—

(*a*) the sanctioned expenditure of each province on the 3rd of January 1921 the date on which responsibility was transferred to each provincial Government.

(*b*) the income and expenditure of each province on the six-monthly figures of 1922-23.

(*c*) the estimated income of each province under the existing Parliamentary Rules and what the estimated income of each province would have been if the system in force before the promulgation of the Reforms were taken into account.

(*d*) what revenue should be placed at the disposal of each province so that it could carry on its normal expenditure as sanctioned before the 3rd of January 1921 without extra taxation or retrenchment; and

(*e*) in what way such revenue could be allocated to each province so that "the financial arrangements between the central and provincial Governments should be free from ambiguity", if not for all time, at any rate till the next Parliamentary Committee come out in 1931.

The facts and calculations relevant to the submission contained in this paragraph are set out in the memo annexed herewith and marked with the letter E.

11. I am directed by my Council to submit further that pending the enquiry by this Parliamentary Committee and in order to enable the different provincial Governments to carry on their administration with some degree of efficiency and with some show of responsibility to tax-payers of some of the provinces that have been unjustly taxed to find their ordinary sanctioned expenditure and to enable them to frame their budgets for the year 1923-24, resources to the extent of 2 crores and 25 lakhs should temporarily be placed at the disposal of the different provincial Governments on the basis of the facts and calculations set out in memo F annexed hereto.

12. I am directed by my council to suggest that this sum of Rs. 2 crores and 25 lakhs should be immediately found from the retrenchments that are likely to be recommended by the Committee presided over by Lord Inchcape and that the additional resources of about 7 crores for the subsequent years should either be found from the said retrenchments or from such other sources as the suggested Parliamentary Committee may recommend.

13. Lastly the Council of my League submit that the proper constitutional procedure which should be adopted to give effect to these submissions will be by changing the Parliamentary Rules under section 129A after the recommendations of the suggested Parliamentary Committee have been received and considered by your Lordship: but in the meantime and pending the receipt and consideration of such report, in order to give immediate and much-needed relief to the provinces, your Lordship may be pleased to direct the Government of India under section 33 of the Government of India Act after consulting the said Government, that additional resources to the extent of 2 crores and 25 lakhs be immediately placed at the disposal of the different provincial Governments only for the year 1923-24. The Council of my League submit that in order to give effect to the permanent remission of 7 crores or such other sum as may be recommended by the suggested Parliamentary Committee it will be unconstitutional to ask the Government of India to get the sanction of its Legislative Assembly, as the question is one for change of Parliamentary Rules and not for re-allocation of revenues on the basis of the present Parliamentary Rules which are binding, so long as they are not set aside, not only on the Government of India but also on the different provincial Governments.

In conclusion the Council of my League pray that your Lordship may be pleased to issue very early orders and in order that such orders may be of use to the provinces for the purpose of framing their budgets for the year 1923-24 such orders may be transmitted by cable not later than February 1923.

MEMO A

Showing the difference between the anticipations of the Meston Committee and the real position in the year 1922-23 with regard to every province in India.

Table 1 below is a reprint from paragraph 17 of the report of the Committee of Financial Relations. It sets out the anticipations of the Meston Committee with regard to increased spending power of each province both before and after contribution to the Government of India. Table 2 is a reprint from paragraph 2 of the despatch of the Secretary of State. That table is apparently based on the estimates prepared in the early part of the official yaer 1922-23, probably in the month of April of that year. It sets out the financial position of each province in the beginning of the official year 1922-23.

The financial position of some of the provinces has changed since April 1922. On the six-monthly figures of the current official year (1922-23) the anticipations embodied in Table 2 have materially changed with regard to some of the provinces; for example, in Bengal the new taxations instead of bringing in 1 crore and 40 lakhs as set out in that table is estimated to bring in only 65 lakhs on the six-monthly figures of the current year. In point of fact the deficit of Bengal on the six-monthly estimate is 66 lakhs instead of a surplus of 19 lakhs as set out in the said table. In Table 3 we have tried to set out the difference between the anticipations of Lord Meston's Committee and the realities on the six-monthly figures of 1922-23 wherever the six-monthly figures are available to us. We may mention that in Table 2 there is no reference to the fact that Bengal had retrenched to the extent of 89½ lakhs in September 1921—a fact mentioned in a speech delivered in the Bengal Legislative Council by His Excellency Lord Ronaldshay in November 1921. The said figure of 89½ lakhs has been taken into account in Table 3. It should also be mentioned that as we are not conversant with the changes, if any, in the financial position of the other provinces between April 1922 and the 1st of October 1922 we have followed the figures in the despatch in all cases except in that of Bengal.

In Table 1 Lord Meston's Committee has used the words "increased spending power" in columns 2 and 4 of that table. The net increased spending power is stated in the column 4. By the expression increased spending power in column 4 it was meant that by reason of the changes in financial adjustments recommended by Lord Meston's Committee (it may be mentioned that these recommendations with slight modifications were embodied in the Parliamentary Rules) each province will have additional resources to the extent of the amounts mentioned in column 4 over and above such resources as were available to each of the provinces on the principle of divided heads which obtained before the Reforms. It may be mentioned that the report of Lord Meston's Committee lays great stress on the fact that every province should have additional spending power as the purse was entirely separated from that of the Secretary of State. In pre-Reform days if by any chance any province could not meet its expenditure it could apply to the Government of India to come to its relief. This would no longer be possible when the position of a separate provincial purse has been definitely accepted as the basis of the Reform

Scheme. Indeed the first principle of a parliamentary system of government should be a separate purse and financial responsibility for carrying on the Provincial administration. Another point on which Lord Meston's Committee lays great stress is that no provinces should be called upon to tax itself to carry on its ordinary administration. It said, "It will clear the ground to state at the outset a limiting consideration by which we have felt ourselves bound. This is an obligation to leave each province with a reasonable working surplus, a surplus which we should prefer to calculate so far as possible with some relation to the general financial position of the province and the more imminent claims upon its resources"......"the limit we have imposed on ourselves is that in no case may a contribution be such as would force the province to embark on new taxation *ad hoc* which to our minds would be an unthinkable sequel to a purely administrative re-arrangement". The unthinkable sequel has happened and on the figures set out in Table 2 it will appear that inspite of heavy taxation to carry on the ordinary administration practically every province is in deficit.

It is not surprising that the anticipations of Lord Meston's Committee have not been realised. Lord Meston's Committee based their calculations on the provincial budgets of war period when most of these budgets were ruthlessly cut down. Indeed the Provinces which tried to do their utmost to help the Empire to win the war by cutting down their budgets to the lowest possible limits have fared worst in the hands of Lord Meston's Committee. The last budget available to that Committee was the budget of the year 1919-20 and his committee must have also taken note of the budgets of the previous years. They did not, and to some extent perhaps could not, take into account the increased expenditure sanctioned by the Secretary of State (and it must be remembered that in pre-Reform days all important expenditure required the sanction of the Secretary of State and the Government of India) between say November 1918 (when the preliminary provincial budgets were framed for the following year) and the 3rd of January 1921 when responsibility was transferred from the Secretary of State to the different provincial Governments with separate purses. Lord Meston's Committee settled the future of every province in India as also of the Government of India in the short space of 7 weeks (they opened their enquiry at Delhi on the 5th of February 1920 and submitted their report on the 31st of March 1920). Within these 7 weeks a good portion must have been spent in railway and other journeys and the time at their disposal must have been very short indeed in view of the importance and difficulties of the problem they had to solve. The budgets on the basis of which Lord Meston's Committee decided the future financial fate of the Government of India and of every province in India were, as already mentioned, war time budgets. Furthermore the rate of exchange then prevailing and prosperity in trade and commerce following upon the declaration of armistice gave an unreal position of prosperity both to the Government of India and to the different local governments. The statement of Lord Meston's Committee that they had to deal with abundant general resources (*vide* paragraph 11 of that report) both in the central Government and in the provincial governments has proved to be a dismal error in the light of subsequent events. Instead of there being abundant general resources the financial position of the Government of India as also of every province in India has been critical during

the last two years. In view of the fact that Lord Meston's Committee thought that they were to deal with abundant resources and the present realities being just the contrary, we venture to suggest that instead of attempting to provide for increased spending power to the extent of 8 crores and 67 lakhs to the different provinces, as suggested by Lord Meston's Committee, the different provinces should be left with an increased spending power of say about 1½ crores of rupees over the sanctioned expenditure on the 3rd of January 1921. This suggestion if accepted will ensure a fair division of the financial difficulties of the Government of India and of the different provincial Governments. Some change on these lines seems to be necessary as we have to deal with deficit budgets all round and not with abundant general resources.

TABLE I.

Being a reprint of the table set out in paragraph 17 of the report of Lord Meston's Committee.

Province	Increased spending power under new distribution of revenues In lakhs	Contribution as recommended by the committee In lakhs	Increased spending power left after contributions are paid In lakhs
Madras ...	5,76	3,48	2,28
Bombay ...	93	56	37
Bengal ...	1,04	63	41
United Provinces ...	3,97	2,40	1,57
Punjab ...	2,89	1,75	1,14
Burma ...	2,46	64	1,82
Bihar and Orissa ...	51	*Nil*	51
Central Provinces ...	52	22	30
Assam ...	42	15	27

TABLE II

Being a reprint from the table set out in paragraph 2 of the Despatch of the Secretary of State.

	Madras	Bombay	Bengal	United Provinces	Punjab	Burma	Bihar & Orissa	Central Provinces	Assam	Total
Revenue (including new taxation) ...	16,77 (78)	14,92 (60)	10,56 (140)	13,59	11,38	10,01	4,63	5,35	2,08 (3)	89,29 (281)
Expenditure	17,19	15,42	10,37	13,86	12,68	9,88	5,14	5,72	2,23	92,49
Deficit	42	50	...	27	1,30	...	51	37	15	3,52
Surplus	...	...	19	...	...	18	...	...	...	32
						(Net deficit all Provinces)				3,20

TABLE III

Shewing the difference between the anticipations and the actual state of affairs.

Column IV of Table I (being the net increased spending power of each province under the report of the Meston Committee)			Total of new taxation and deficit of each province as shown in Table II.				Retrenchment	Difference between Lord Meston's anticipations and the actual state of affairs in 1922-23.
			Actual surplus	Actual deficit	Deficit met by taxation	Total deficit		
Madras	...	228	...	42	78	120	Substantial	348 + (retrenchment made)
Bombay	...	37	...	50	60	110	...	147
Bengal	...	41	19	Nil	140	121	89½	324½ (taking into account the remission of 63 lakhs by the central Government)
United Provinces	...	157	...	27	Nil	27	...	184
Punjab	...	114	...	130	Nil	130	...	244
Burma	...	182	12¾	190	202¾*	190	...	372
Bihar & Orissa	...	51	...	51	Nil	51	...	102
Central Provinces		30	...	37	Nil	37	...	67
Assam	..	27	...	15	3	18	...	45
TOTAL	...	867	31¾	542	483¾	804	...	...

* Profit by rice control scheme.

Excluding all profits from the rice control scheme Burma shows a deficit of 190 lakhs.

On the six-monthly figures of 1922-23 Bengal will have a deficit of 66 lakhs instead of a surplus of 19 lakhs.

MEMO B

Showing the financial difficulties of each province in India.

In this memo we propose to deal with the financial position of every province in India on the latest figures available to us namely the figures of the year 1922-23 and wherever possible on the six-monthly figures of that year.

Madras.—This province has retrenched extensively. It has abolished 60 gazetted posts, 1250 minor posts and the land record department. It has reduced expenditure in the labour department and the P. W. D. Although the actual amount saved by retrenchment is not available to us yet there is no doubt that the amount must be considerable. Inspite of this heavy retrenchment Madras had to impose new taxation to the extent of 78 lakhs and is still faced with a deficit of 42 lakhs. On the anticipations of the Calculation of Lord Meston's Committee (paragraph 17) Madras after paying her contribution of 3 crores and 48 lakhs should have been left with an increased spending power of 228 lakhs. The realities of the financial situation for the current year show how great is the difference between those anticipations and the present position. We suggest that for the year 1923-24 each province should receive some temporary relief pending the final decision of the suggested Parliamentary Committee (see paragraph 10 of our representation). We appreciate that in view of the present financial situation of the Government of India this temporary relief cannot be given on a large scale. We suggest that to ensure justice between the different provinces and promote ideas of financial responsibility one principle for the grant of this temporary relief should be recognition of reward for self-help evinced by those provinces which tried to meet the situation manfully by taxation and retrenchment. We therefore suggest that every province should get a fraction (we suggest that this fraction should be 1/3rd but we are willing to leave it to the decision of the Right Hon'ble Secretary of State for India as to what the fraction should be) of the new taxation actually imposed, the retrenchment actually undertaken and the actual deficit on the latest available figures, namely, the six-monthly figures of 1922-23. Those provinces which did not impose any new taxation or undertake any retrenchment will get only a 3rd share of their deficit whereas those that imposed new taxation or retrenched should also get 3rd shares of the amounts which they actually found from these heads. The reason for this proposal is that in the absence of such taxation and retrenchment in the provinces that adopted this course their deficits would have been higher to that extent. Provinces which did not tax or retrench have no right to complain as every province which taxed and retrenched will get the benefit of such taxation and retrenchment in the same proportion. On this basis Madras should get about 40 lakhs on account of her new taxation and deficit as also one-third of the amount by which she may have actually retrenched before October 1922. When the proposed Parliamentary Committee comes out its endeavour should be to allow Madras such heads of revenue as would enable that province to carry on its sanctioned normal expenditure on the 3rd of January 1921, the date when responsibility was transferred from the Secretary of State to the Local Governments. As Madras is a major province, for reasons explained below, she should get about

20 lakhs more as increased spending power over and above the actual amount of sanctioned expenditure.

Bombay.—It appears from the aforesaid despatch of the Government of India that this province has not retrenched but it has considerably increased its expenditure in connection with loans raised for development operations and that the major portion of the deficit of 50 lakhs is due to its expenditure for the service of this loan. It has however imposed taxation to the extent of 60 lakhs. We suggest that following the principle enunciated Bombay should get for the year 1923-24 about 26 lakhs on account of its new taxation and deficit on the following basis, namely, 1/3rd of 60 lakhs (20 lakhs) for its new taxation and 1/3rd of 20 lakhs for its deficit (on the assumption that 30 lakhs out of its deficit of 50 lakhs is due to the service of its loan for expansion and 20 lakhs is the real deficit apart from expansion). If on examination of figures the amount be found to be different then a different amount on the above principle should be allowed. When the new Parliamentary Committee comes out it should endeavour to allow Bombay such heads of revenue as would enable her to meet her sanctioned expenditure on the 3rd of January 1921 and say 20 lakhs over and above that figure. Lord Meston's Committee wanted to allow 37 lakhs to Bombay on account of her increased spending power but as the anticipations of that Committee about abundant general resources both for the Government of India and the different provincial Governments have not been realised every province must be content with a much lower increased spending power.

Bengal.—Bengal retrenched to the extent of 89½ lakhs in September 1921. This fact is not stated in the aforesaid despatch of the Government of India. This retrenchment however was announced by His Excellency Lord Ronaldshay in a speech in the Bengal Legislative Council in November 1921. Bengal's estimated realisation from new taxation was 140 lakhs and the Government of India's despatch has taken the figure to be 140 lakhs. On the six-monthly figures of 1922-23 Bengal's estimated income from the new taxation instead of being 140 lakhs is likely to be 65 lakhs (*vide* Statement in answer to a question in the Bengal Legislative Council by the Hon'ble Mr. Donald, Finance Member for Bengal in November 1922). Bengal's deficit in the estimated revenue on the six-monthly figures as announced by the said Finance Member in the said statement was 85 lakhs. According to the anticipations of Lord Meston's Committee Bengal was expected to have an increased spending power to the extent of 41 lakhs. Her actual position on the six-monthly figures of 1922-23 shows that the difference between those anticipations and the realities of the present day amount to 324½ lakhs on the following calculation :—

Retrenchment	89½	lakhs
Contribution taken off	63	,,
New Taxation (on the basis of the six-monthly figures)	65	,,
Deficit	66	,,
No increased spending power	41	,,
	324½	lakhs.

It is suggested that for the year 1923-24 Bengal should be allowed about 73 lakhs on account of her retrenchment, new taxation and deficit on the following basis, namely 1/3rd of 89½ lakhs, 65 lakhs, and 66 lakhs being the amounts of retrenchment, new taxation, and deficit respectively. When the suggested Parliamentary Committee comes out it should endeavour to give such heads of revenue to Bengal as would be enough to meet her sanctioned expenditure on the 3rd of January 1921 and about 20 lakhs more than such sanctioned expenditure instead of 41 lakhs as suggested by Lord Meston's Committee.

United Provinces.—According to the aforesaid despatch of the Government of India the United Provinces did not impose any additional taxation and their taxation proposal was rejected by the Legislative Council. It does not appear that they have at all retrenched. It appears further from the said despatch that the said Government have already raised a loan of 4 crores of rupees. One may assume that there must be provision in their budget for about 30 lakhs of rupees for the service of this loan. It is also understood that the said Government have expanded in certain directions such as establishment of new Universities and other activities. Their deficit of 27 lakhs is therefore due to expansion. It also appears that they have still a drawing balance to the extent of 193 lakhs. As this province has neither taxed itself nor retrenched and as its deficit is due to expansion it is not necessary to give any temporary relief to it during the year 1923-24. As regards its future adjustment of revenue it is suggested as in the case of the other provinces that the proposed Parliamentary Committee will determine its sanctioned expenditure on the 3rd of January 1921 and try to give it definite heads of revenue so that the province may have enough to carry on its sanctioned expenditure on the aforesaid date. Being a major province it should also get 20 lakhs more than the said sum.

Punjab.—The said despatch shows that Punjab has neither retrenched nor imposed additional taxation. Its deficit amounts to 130 lakhs out of which only 22 lakhs are considered to be abnormal. Its ordinary deficit will therefore be 108 lakhs. It is suggested on the above principle that Punjab should have immediate relief for the year 1923-24 to the extent of 36 lakhs (1/3rd of 108 lakhs) and for the future the Parliamentary Committee should as in the case of other provinces attempt to give it enough resources to carry on its responsibilities on the sanctioned scale of expenditure on the 3rd of January 1921. It should also get a further sum of 10 lakhs if it be not considered to be a major province. On the other hand if it be considered a major province then it should get an additional sum of 20 lakhs.

Burma.—The said despatch shows that with the 202¾th lakhs obtained from the Rice Control Scheme it has a small surplus. It appears from the aforesaid despatch that the province has neither retrenched nor taxed itself. The Rice Control Scheme stands on a position analogous to the export duty on jute in Bengal. As it has no immediate deficit this province does not require any relief for the year 1923-24. As regards the future the proposed Parliamentary Committee should examine its sanctioned expenditure on the date on which Reforms were introduced in this province in the current year and it should be allowed enough to carry on its normal expenditure on the

said sanctioned scale and Rs. 20 lakhs more as in the case of the other major provinces.

Behar & Orissa.—It does not appear from the said despatch that this province has either retrenched or imposed any new taxation through the Legislative Council. It is stated that since the last budget was passed the local Government have raised the registration fees. Its budget shows a deficit of 51 lakhs in the current year. It is suggested on the above principle that for the year 1923-24 this province should get 17 lakhs towards making up its deficit and one-third of the sum it has raised by increasing the registration fees. As regards the future the suggested Parliamentary Committee should allow enough revenue from definite heads so as to enable it to carry on its normal expenditure on the basis of the sanctioned amount of expenditure on the 3rd of January 1921. The province being a minor province should also get 10 lakhs over and above its sanctioned expenditure.

Central Provinces.—It appears from the said despatch that this province has neither taxed nor retrenched and that its deficit amounts to 37 lakhs. It is suggested that for the year 1923-24 this province should be allowed 12⅓ lakhs towards its deficit. As regards the future the Parliamentary Committee should give it such heads of revenue as would enable it to find the normal expenditure sanctioned on or before the 3rd January 1921. As this is a minor province it should get an additional sum of 10 lakhs.

Assam.—From the said despatch it does not appear that this province has retrenched. It has however raised additional revenue of about 3 lakhs from enhancement of stamp duty. Its deficit is 15 lakhs. On the above principle it is suggested that for the year 1923-24 this province should get 6 lakhs. As regards the future the proposed Parliamentary Committee should as in the case of the other provinces give it enough definite heads of revenue to carry on its sanctioned expenditure on the 3rd of January 1921 and being a minor province 10 lakhs more than the sanctioned expenditure.

On the basis of the aforesaid figures the total amount necessary for all the provinces for the year 1923-24 will be about 210⅓ lakhs to 225 lakhs as the following table will show :—

Madras	...	40	lakhs	(plus 1/3rd of the amount of retrenchment)
Bombay	...	26	,,	
Bengal	...	73	,,	
United Provinces	...	*Nil*		
Punjab	...	36	,,	
Burma	...	*Nil*		
Behar & Orissa	...	17	,,	(plus 1/3rd of Registration fees)
Central Provinces	...	12⅓	,,	
Assam	...	6	,,	
TOTAL	...	210⅓		(say 225 lakhs after taking into account the unknown figures of Madras and Behar regarding retrenchment and Registration)

MEMO C

Showing an estimate of the future financial re-adjustments.

It will appear from the table set out in paragraph 17 of the Report of Lord Meston's Committee of Financial Relations (which table has been reprinted as table 1 of Memo. A. of this representation) that Lord Meston's Committee attempted to provide an increased spending power to the extent of 8 crores and 67 lakhs to the different provinces. This 8 crores and 67 lakhs was the estimate after paying contribution to the Government of India as referred to in the said table. On the basis of the suggestions made in Memo. B. of this representation we propose that each of the five major provinces should be left with an increased spending power of 20 lakhs each and each of the four minor provinces should be left with an increased spending power of 10 lakhs each. The total increased spending power according to our suggestion would therefore be 1 crore and 40 lakhs instead of 8 crores and 67 lakhs. This means a reduction of 7 crores and 27 lakhs in the contemplated increased spending power. As already pointed out the basis of the recommendation of Lord Meston's Committee was the war time budget of 1919-20. The basis of our suggested re-adjustment will be the sanctioned scale of expenditure on the 3rd of January, 1921. The amounts for the different provinces on the basis suggested by us is not definitely known to us at the present moment. By working back from the table set out in para. 2 of the despatch of the Secretary of State and after taking into account the amounts referred to in the said table as new taxation, deficits and similar items it is possible to get a rough idea of what those amounts should be. It will appear from the said table that the total of new taxations and deficits of the different provinces comes up to 6 crores and 33 lakhs. There are certain amounts of retrenchment in Bengal and Madras which have not been taken into account in arriving at the said figure of 6 crores and 33 lakhs which according to our suggestion should be added to the said sum making a total of about 7 crores and 50 lakhs. It appears from the aforesaid despatch of the Government of India that some of the provinces have increased the expenditure after the introduction of the Reforms, for example it appears that the United Provinces and the presidency of Bombay have expanded their expenditure by providing for sinking funds for heavy loans and there is an amount of 22 lakhs in the budget of the Punjab which has been described as an abnormal expenditure. A sum of 85 lakhs forms a fair estimate of the total of such expansions for the different provinces. The estimated net deficit for all the provinces working back from the figures in paragraph 2 of the despatch of the Secretary of State will therefore be roughly about 85 lakhs less than the aforesaid sum of 7 crores and 50 lakhs or in other words rupees 6 crores and 65 lakhs. When the figures are properly worked out by the suggested Parliamentary Committee it is submitted that this estimate is not likely to be a very wrong one and in any case will be somewhere in the neighbourhood of 7 crores of rupees. In the aforesaid 2 despatches it is suggested that the objective to be aimed at is that the Government of India should at some future point of time surrender the total provincial contribution of 9 crores and 83 lakhs. According to our suggestion the objective of the Government of India should be to surrender about 7 crores instead of 9 crores and 83 lakhs. This will therefore mean an improvement of the financial position of the Government

of India to the extent of about 3 crores and will to that extent prove beneficial to all-India tax-payers. Further the lower the figure the easier it will be for the Government of India to relieve all the provinces. Lastly on the basis of our suggestion every province will be benefited and not merely 2 out of the 9 provinces. Even with regard to these 2 provinces, as a matter of practical proposition, our scheme will be more beneficial; for the Government of India is not likely to surrender any revenue over and above what is necessary to allow these 2 provinces to wipe out their immediate deficit. Our scheme if accepted will mean that every province will be able to wipe out its deficit and the ultimate surrender of revenue by the Government of India will be lower than that involved in the scheme embodied in the Parliamentary Rules framed on the basis of unsatisfactory calculations of Lord Meston's Committee.

MEMO D—Showing that Bengal is the most heavily taxed province in the whole of India and pays the largest share towards the cost of the Central Government and also explaining certain peculiar financial difficulties of the province.

Statement showing the amount of revenue paid by each province to the Central Government (on the basis of revenues collected within the province.)

In lakhs.

Name of the province	Total amount of revenue collected within the province for the year 1919-20	Amount of revenue appropriated by the Central Government for 1919-20	Amount of revenue left with the Provincial Government for 1919-20	Amount of revenue collected within the province for the year 1920-21	Amount of revenue appropriated by the Central Government for 1920-21	Amount of revenue left to the Provincial Government for 1920 21	Population	Area
Madras	20,58	7,73	12,85	21,42	11,78	9,64	41,405,404	142,330
Bombay ..	30,59	16,69	13,90	31,42	19,68	11,74	19,672,642	123,059
Bengal ...	30,06	20,51	9,55	34,03	25,63	8,40	45,483,077	78,699
United Provinces ...	14,12	3,23	10,89	14,29	5,80	8,49	47,182,044	107 267
Punjab ...	12,02	2,47	9,55	11,94	5,30	6,64	19,974,956	99,779
Behar & Orissa ...	5,16	34	4,82	5,02	1,33	3,69	34,490,084	83,181
Central Provinces ...	5,67	71	4,96	5,77	1,92	3,85	13,916,308	99,823
Assam ...	2,44	27	2,17	2,25	71	1,54	6,713,635	53,015

N. B.—On the figure of 1920 21 Bengal paid more than 75 p c. to the Government of India and was allowed to retain less than 25 p. c. for provincial expenditure. Madras was allowed to retain nearly 50 p. c and Bombay over 34 p. c. provincial expenditure.

It will appear from the above table that in the year 1920-21 Government of India appropriated 25 crores and 63 lakhs from Bengal (population 45 millions and odd, area in sq. miles 78,000 and odd) as against 11 crores and 60 lakhs from Madras (population 41 millions and odd, area in sq. miles 142,000 and odd), 19 crores and 69 lakhs from Bombay (population 19 millions and odd, area in sq. miles 123,000 and odd), from the United Provinces 5 crores and 80 lakhs (population 47 millions and odd, area in sq. miles 107,000 and odd), from the Punjab 5 crores and 30 lakhs (population 19 millions and odd, area in sq. miles 99,000 and odd). The appropriation by the Government of India from Bengal was higher than that from any other province and the percentage of total revenue left for provincial expenditure was lower than that of any other province which can be reasonably compared with Bengal. The only criticism that can be made to the statement set out in the above table is that it includes the total amount collected within the province from such heads as Custom duty, Income-Tax and Salt duty. It is true that the total amount collected cannot be legitimately claimed as being really paid by the tax-payers in Bengal. We propose therefore to examine what portion of this total amount is really paid by the tax-payers of Bengal and how Bengal stands in comparison with other provinces with regard to Imperial revenues really paid by the tax-payers of Bengal and not merely collected within the limits of the Province of Bengal. We propose to examine the three heads of Income-Tax, Custom duties and Salt duty separately.

Income Tax.—It is submitted that it can be easily proved that 91% of the Income Tax raised within Bengal is paid by the tax-payers in Bengal This fact was proved before Lord Meston's Committee. Income Tax from such heads as Jute Mills, Jute Business, Local Mills, Local House property, local retail trade, money lending, etc. are paid by the Bengal tax-payers and the income from these heads is 91% of the total Income-Tax collected in the province. The total amount of Income Tax raised within the province in the year 1920-21 is 6 crores 7 lakhs and 41 thousands and 91% of this is about 5 crores and 53 lakhs which represent the contribution of the Bengal tax-payers under the head Income Tax to the Government of India.

Custom duty.—As regards custom duty in the year 1920-21 Rs. 12 crores 81 lakhs and 85 thousands were collected in Bengal. Out of this about 5½ crores represent export duty and about 7¼ crores represent import duty. About 3 crores and 40 lakhs are collected from Export duty on Jute. This is wholly Bengal's. The other heads are represented by Hides and Skins, rice and tea and amount to about 2 crores and 10 lakhs. Pending ascertainment of the actual figure by an enquiry it is submitted out of this 2 crores and 10 lakhs about 75 lakhs on a very low estimate represent the export duty of the province of Bengal on these heads. The total amount of export duty would therefore come up to 3 crores 50 lakhs plus 75 lakhs=4 crores and 25 lakhs (about). Of the import duty of about 7¼ crores it is submitted that area per area and population per population Bengal consumes larger values in the following articles :—

(*a*) Cotton manufactures, Yarn and textile fabrics—(because the Bengal ryots and the middle classes use more of Manchester goods than

Assam, Bihar and Orissa or United Provinces ryots and middle classes).

(*b*) Foreign liquor, Tobacco and articles of food and drink—(because there is a comparatively larger number of Europeans and Europeanised Indian population in Calcutta and the neighbouring mill municipalities as compared with towns in Assam, Bihar and Orissa and the portion of the United Provinces served by the port of Calcutta).

(*c*) Sugar—(because the Bengal ryot uses more of the imported sugar and also because of the comparative large number of European and Europeanised Indian population in Calcutta and its neighbourhood).

Because of the reasons stated above and other reasons it will appear on a careful examination of the items relating to imports that out of the 7¼ crores realised from import duty about 5 crores would justly represent consumption in Bengal by the local public.

It will appear therefore that out of the custom duty of 12 crores 81 lakhs and odd Bengal's real contribution would not be less than *9 crores and 25 lakhs.* This is no doubt an estimate, but it is submitted, it is a fairly low estimate. If this estimate is disputed an enquiry in the presence of the representatives of the other provinces is solicited. The figures are taken from Civil Estimates for the year 1920-21.

Salt.—The total amount collected from salt duty in Bengal is 1 crore and 62 lakhs. Out of this, on a calculation on the basis of the population of the area served by the port of Calcutta, as compared with the population of Bengal it is estimated that Bengal's contribution will not be less than 80 lakhs but an enquiry is solicited.

The total real contribution of Bengal on Income Tax, Custom duty and Salt duty in the year 1920-21 will therefore come up to about 15 crores and 53 lakhs.

The only other province which raises considerable sums on these 3 heads of revenue is Bombay. It must however be remembered that the port of Bombay is the gate of India and serves not only the large area of 123,059 sq. miles representing the presidency of Bombay but the whole of Central Provinces, the native States of Central India, Gujrat and Kathiwar and through the port of Karachi the whole of the Punjab as also a good portion of the United Provinces partly through the port of Karachi and partly through that of Bombay. Accurate figures are not available to us for ascertaining what portion of the 16 crores and 69 lakhs collected in Bombay represents the real contribution of the population of the Presidency of Bombay and what portion represents that of the rest of India served by the ports of the Bombay presidency, but it is submitted that if half of the said amount of 16 crores and odd be estimated to be raised within the province Bombay will have no reasonable right to complain. An enquiry however is also solicited on this point.

The argument that the Income tax collected within the other Provinces of Madras, United Provinces, Punjab, etc. does not really represent the contribution of the people of those provinces apply equally to the said provinces. If the other provinces are allowed to claim the whole of the collections within their limits their contributions to the Central Government will be much lower than that of Bengal either on the basis of population or of area. An enquiry is also solicited with regard to these provinces as to how much is really contributed by the people of these provinces and how much by those outside. I append below a table showing the contribution to the Central Government by the population of each province calculated on the basis of the above statements. The figures are based on estimates of 1920-21.

Table showing the contribution to the Central Government, by the population of each province.

Name of province	Income-Tax actually raised within the province for 1920-21	Custom duty actually paid by the population of the province for 1920-21	Salt duty actually paid by the population of the province for 1920-21	Total	Population	Area	Contribution per head of population	Contribution per Sq mile
Bengal	5,53 lakhs	9,25 lakhs	80 lakhs	15,58	45,483,077	78,699	3'4	1,975
Bombay (on the basis of half the total amount collected) ...	...	...	...	9,84	19,672,642	1,23,059	5	795
Madras	...	...	...	11,60	41,405,404	1,42,330	2'8	815
U. P.	...	...	...	5,80	47,182,044	1,07,267	1'2	540
Punjab	...	...	...	5,30	19,974,956	99,779	2'6	540
Behar & Orissa ...	...	...	...	1,30	34,490,084	83,181	4	155
Central Provinces ...	...	...	...	1,92	13,916,308	99,823	1'3	192
Assam	...	...	...	71	6,713,635	53,015	1	133

N. B.—The whole of the amount collected in Madras, United Provinces, Punjab, Behar and Orissa, Central Provinces and Assam have been shown in the above table without any deduction. If an enquiry be made very likely Madras will not be able to prove more than 7 crores as her real contribution. Behar and Orissa and Assam will get the credit of a good portion of the 10 crores which represent the difference between 25 crores and 63 lakhs collected within the province of Bengal and 15 crores 58 lakhs actually claimed by Bengal

EXPENDITURE.

We next propose to examine the question of the sanctioned provincial expenditure of each of the provincial administration before the introduction of Reforms. The provincial expenditure of Bombay, according to the budget estimate of 1920-21, was Rs. 12 crores 67 lakhs, that of Madras Rs. 12 crores 54 lakhs, Bengal 10 crores 38 lakhs, that of United Provinces 12 crores 34 lakhs, Punjab 8 crores 87 lakhs, Burma 9 crores 10 lakhs, Bihar and Orissa 4 crores 70 lakhs and Central Provinces 4 crores 96 lakhs. The population of Bengal is about 45.5 millions, that of Bombay 19.6 millions, Madras 41.4 millions, Punjab 19.9 millions, United Provinces 47.1 millions, Central Provinces 10.8 millions, Bihar and Orissa 34.4 millions and Burma 12.1 millions. It will be seen from the above that whereas Bombay's expenditure per head of population is *6.5* and that of Burma 7.6 and Madras 3, Bengal's expenditure per head of population is only *2.2*. When one remembers the notoriously insanitary condition of malaria stricken Bengal and that millions of the jute growing ryots of Bengal, (the custom duty on which contribute about 3 crores and 40 lakhs to the Imperial Exchequer) are the worst sufferers from that fell disease, the injustice hitherto done to Bengal would be apparent to all right thinking persons and the apparent balance in favour of Bombay in the matter of imperial contribution above noted would be more than compensated by the fact that Bombay is fortunate enough to be able to allocate per head of population an expenditure of about 3 times that of Bengal. A comparison of the figures relating to education as between Bombay and Bengal will also prove that Bengal in the past was not fairly treated in the matter by the Government of India.

MEMO E

Showing the necessity for enquiry on the points of reference suggested in paragraph 10 of this representation.

Many of the relevant facts necessary for the consideration of paragraph 10 of the representation have been set out in memos A. B. and C. It is submitted that enquiry on the points suggested in clause (*a*) of the said paragraph is very necessary as on the 3rd of January 1921 the responsibility of the Secretary of State was transferred to each of the provinces and each of the provinces would justly be entitled to get enough revenue and some small surplus to carry on its responsibility for the sanctioned scale of expenditure at that time. The Secretary of State was the sanctioning authority for every pice of revenue spent by each Provincial Government before the 3rd of January 1921. It is unjust to call upon any province to tax itself for the purpose of finding its normal expenditure. This principle has been accepted all throughout in the Montagu-Chelmsford Report, Lord Meston Committee's report and in the report of the Parliamentary Joint Committee. The difficulty has been one of facts and figures and not on any question of principle.

The enquiry suggested in clause (*b*) is necessary as the six-monthly figures are the latest available figures.

Enquiry on clause (*c*) is also necessary as it will enable the committee to ascertain the difference in the position of each province on the basis of the old system of divided heads and the new system embodied in the parliamentary rules on the basis of Lord Meston Committee's report. The old system had this advantage namely that it took into account the realities of the situation and did not proceed upon mere political theories. Examination will prove that it is a fact that, generally speaking, in provinces where land revenue is high, the Income Tax is low and where the Income Tax is high, the land revenue is low. Under the old system by making the land revenue and the Income Tax divided heads financial safety was assured. If under the new system to be suggested by the Committee divided heads are to be abolished it will certainly be helpful to find out the financial result of the old system of divided heads and the new system that may be suggested by the Committee and also to ascertain how far the suggestion will meet the liability of the different provinces for their respective sanctioned expenditures.

Clause (*d*) is very necessary in order to find out the actual amount.

Clause (*e*) is also very necessary as the allocation should be free from ambiguity. Several possibilities are worth enquiring into namely :—

(*a*) Instead of contribution from each province to the central exchequer as suggested by Meston Committee's report a system of contribution of say one-third of the land revenue of each province by the local Government to the central government and a contribution of one-third of Income Tax raised within each province by the Government of India to the provincial exchequer of each province may be introduced. The administration of the provincial revenue should be left wholly to the provinces without any interference by the Government of India. Similarly the administration of Income Tax should be left wholly to the Government of India without any interference from the provincial Governments. It is true that this system perpetuates the system of divided heads deprecated by the Montagu-Chelmsford report. It will however have the advantage of taking into account the realities of the financial position and will also have the advantage of building the future on the experience of the past.

(*b*) After ascertaining the amount of revenue necessary to give each province its sanctioned expenditure on the 3rd of January 1921 and 20 lakhs to major Provinces or 10 lakhs to minor Provinces over and above such expenditure, a fixed and not variable contribution may be suggested from some of the provincial Governments to the Central Government and a fixed and not variable contribution from the Central Government may also be suggested to some of the provincial governments. For example it will perhaps be necessary on this system for Madras to contribute for the next 7 or 8 years to the Central Government a sum of say Rs. 1,75,00,000 instead of the present contribution of 3 crores and 48 lakhs and for the United Provinces a sum of say Rs. 1,80,00,000

instead of its present contribution of 2 crores and 40 lakhs. It will perhaps be necessary to reduce the contribution of the Punjab from 1 crore and 75 lakhs to about 57 lakhs. If Burma be allowed to retain her rice control scheme she may have to contribute a certain sum to the Government of India. If on the other hand the Government of India wants to take the full benefit of the rice control scheme she may have to contribute a fixed sum to Burma. Bombay, Bengal, Behar and Orissa will not only have the contribution taken off but will receive certain fixed sums from the Government of India to carry on their ordinary administration. The contribution of the Central Provinces will have to be remitted and she may have to get a few lakhs from the Government of India.

(*c*) A third field worth investigation may be that the present heads of revenue should remain intact as they are but each province should be allowed the whole of the Income Tax on house property and land as also on local money lending, local professional income and local retail trade; and

(*d*) A fourth possible line of enquiry may be that a portion of the export duty on jute may be allowed to Bengal, a portion of excise duty on cotton may be allowed to Bombay and a portion of the rice control profits from Burma may be allowed to Burma. The contribution of 3 crores 48 lakhs, 2 crores 40 lakhs and 1 crore 75 lakhs by Madras, the United Provinces and the Punjab be reduced and a definite contribution be allowed to Behar and Orissa, Assam and Central Provinces from the all-India exchequer.

Other possibilities should also be considered by the suggested Parliamentary Committee.

MEMO F

Showing the basis of immediate relief to different provinces for the year 1923-24.

It is submitted that some immediate relief pending the decision of the suggested Parliamentary Committee is very necessary to enable each province to carry on its administration with some degree of efficiency during the next financial year. If the Government of India surrender the sum of Rs. 2 crores and 25 lakhs then this much needed immediate relief can be given to the different provinces. It is hoped that after the recommendation of the Inchcape Committee is published it would be possible for the Government of India to surrender this amount. The amount of this surrender will be a purely temporary measure. It is suggested that one-third of the new taxation imposed by each province on the six-monthly figures of 1922-23 and one-third of the actual deficit of each province calculated on the six-monthly figures of 1922-23 and the retrenchments will furnish a just basis for the purpose of the temporary relief. In memo B. aforesaid a statement showing exactly what each province should receive on the basis of the aforesaid suggestion has already been given.

Reprint from "Statesman" dated 9th December, 1922.

Despatches relating to the conference held at Simla in April last to consider financial arrangements between the Central Government and the Provinces, and the Secretary of State for India's report on the conference, were made public yesterday.

The substance of the Central Government's report is the statement that, in regard to central and provincial budgets, no hope can be held out of immediate relief for the latter from central revenue.

The Meston settlement has to be maintained.

As the Central Government's uncovered deficit amounts to about Rs. 10 crores and provincial contributions to another Rs. 9½ crores, a marked revival in trade, or very considerable retrenchment with the alternative of substantial additional taxation must eventuate before the provincial contributions can be abolished.

The Government of Bombay's proposal for an assignment to them of one-third of the growth of revenue from income-tax cannot be accepted.

The Government of India declares that any reduction of the amount of growing revenue at the disposal of the Central Government must re-act upon the Provinces generally.

The Secretary of State agrees with the conclusions arrived at by the Government of India. He expresses regret that the Provincial Governments find themselves, so early in their history, confronted with difficulties, but he is confident that the heavy burden of responsibilities will be firmly shouldered.

Full Statement of the Position.

CONFERENCE POINTS.

Dated from Simla, July 13, the despatch to the Secretary of State for India, after outlining that a conference was held at Simla in April last with the Finance Members and other financial authorities of the provincial Governments in order to consider various matters connected with the financial arrangements between the central Government and the provinces, adds :—

The statement for Madras shows a deficit in the current year's budget of 42 lakhs, with a closing balance (apart from the Famine Insurance Fund) of only Rs. 15,000. This province has had deficits for four years in succession and the chief cause of this is stated to be the necessity for increasing the pay of the enormous subordinate staff which is required to maintain its very detailed system of administration. The provincial Government, while urging us to reduce the large contribution payable by them to central revenues, have nevertheless faced the position with resolution and have taken active steps to reduce expenditure. They have recently abolished 60 gazetted posts and about 12,500 other posts including the subordinate staff maintained in villages.

The Land Records Department has been abolished, the Labour Department reduced to one officer, travelling allowances have been reduced by 10 lakhs and the programmes for education, sanitation and public works have been seriously curtailed, the Public Works Department, in particular, having been reduced by one superintending engineer, seven executive engineers and twenty-one sub-divisional officers. The Government of Madras are further contemplating the abandonment of minor forest reserves, the replacing of stipendiaries by honorary magistrates, the trial of civil suits in village courts instead of the courts of the district munsifs, the doubling up of districts, divisions, and taluks and other measures which, they consider, will seriously affect the efficiency of the administration. The deficit in the current year would have been very much higher had it not been that the provincial Government have taken steps to increase their revenues by Rs. 77½ lakhs from an increase in stamp duties and registration fees.

In Bombay the budget shows an expenditure of Rs. 50 lakhs in excess of income. The major portion of this deficit is due to the heavy expenditure on the service of debt in connection with the loans for development operations, which, it is anticipated will ultimately be repaid from the sale of developed land. This province also has taken steps to increase its revenues by Rs. 60 lakhs of receipts from higher stamp duties.

Bengal Revenue Surplus.

The Bengal statement is the only one that shows a revenue surplus in the current year. This province has been able to reach this comparatively satisfactory position owing to the remission of the contribution to the central Government, and to receipts from fresh taxation amounting to Rs. 1,40 lakhs.

The budget of the United Provinces shows a deficit of nearly Rs. 27 lakhs. No additional taxation has been imposed in this province, certain proposals, which the local Government brought forward for the enhancement of the stamp duties having been rejected by the Legislative Council.

The Punjab budget shows a very heavy deficit of Rs. 1,30 lakhs in the current year, of which only some Rs. 22 lakhs are considered to be abnormal. This province not only has no balance but is expected to end the last financial year with an overdraft of Rs. 90 lakhs. No additional taxation has been imposed in order to cover the large gap between current revenue and current expenditure, but it is understood that proposals are under consideration for the enhancement of stamp duties, court fees and water rates.

In Burma there is a deficit of Rs. 1,90 lakhs in the current year, but as Rs. 2,02¾ lakhs of the expenditure is being financed from that portion of the balance which represents the amount which this province received from the rice control scheme, there is an actual revenue surplus on the year's working of about Rs. 12¾ lakhs. This province has further a closing balance of about Rs. 3 crores.

The Bihar and Orissa budget shows a deficit of Rs. 51 lakhs in the current year. The local Government have under consideration proposals for

increasing court fees, for an increase in irrigation rates and a cess on coal loaded at collieries. No legislation has yet been passed, but the local Government have raised the registration fees since the budget was passed.

The Central Provinces budget shows a deficit of nearly Rs. 37 lakhs, but the estimates of revenue are abnormally high including, as they do Rs. 34 lakhs of suspended revenue of previous years, and the normal revenue deficit is put roughly at about Rs. 50 lakhs. No measures for additional taxation have yet been passed in this province, but the local Government have under consideration proposals for increases in court fees, registration fees and stamp duties, which it is estimated might bring in about Rs. 19½ lakhs.

The Assam budget shows a deficit of Rs. 14½ lakhs, after allowing for additional revenue of some Rs. 3 lakhs from enhancement of stamp duties. The only further proposal at present under consideration of the local Government for raising additional revenue is the revision of registration fees

PROVINCIAL PROGRAMMES.

(3) It will be seen therefore that every province, with the exception of Bengal and Burma, is at present working on a deficit, that steps have been taken by the Government of Madras, Bombay, Bengal and, to a certain extent, by Bihar and Orissa and Assam to raise additional revenue by increases of taxation, but that in the United Provinces, the Punjab, Burma, and the Central Provinces no additional taxation has yet been imposed.

(4) Not only are the majority of the provinces at present working on a deficit but they also contemplate very considerable capital expenditure to be financed from loan funds.

The Government of Madras propose to undertake remunerative capital projects (mainly irrigation) in the next five years, involving a capital expenditure of about Rs. 4 crores; they have also in contemplation expenditure amounting approximately to Rs. 4 crores for unremunerative capital projects chiefly in connection with buildings and roads; and they further anticipate that the local bodies in the Presidency will require for their own purposes loans aggregating Rs. 7½ crores. The total amount of loans which they themselves require for the financing of which they will be responsible is approximately Rs. 15 crores in the next five years.

The Government of Bombay have a programme of capital expenditure on the Sukkur Barrage and protective irrigation works which would require a provision of about Rs. 14 crores within the next five years, they also anticipate that they will require in connection with the Bombay Development Scheme, loans to local bodies, etc. (according to present information) about Rs. 25 crores in the next five years.

The Government of Bengal took a loan of Rs. 50 lakhs from the central Government last year and propose to take another loan of Rs. 50 lakhs in the current year on account of dredgers which have already been ordered through

the High Commissioner. In their future capital expenditure they consider the most urgent item to be the Howrah Bridge, the total cost of which is put at not less than Rs. 3½ crores. Towards this project the Calcutta Corporation and other local bodies will be required to contribute, but a loan has to be raised initially by the Bengal Government. They are also considering the question whether the Grand Trunk Canal Scheme which is estimated to cost about Rs. 3½ crores will be remunerative. If it is not remunerative, the project will be dropped. The local Government also wish to take loans for general schemes of development amounting to about Rs. 4 crores. They put their minimum requirements for the next five years at Rs. 7½ crores, *viz.*, Rs. 3½ crores for the Howrah Bridge and about Rs. 4 crores for general provincial schemes, but their maximum requirements might involve an additional Rs. 2 crores for general provincial schemes and Rs. 3½ crores for the Grand Trunk Canal Scheme if it can be worked on a remunerative basis.

Speedy Action Necessary.

The United Provinces Government have already raised a loan of Rs. 4 crores, and in the current year they are drawing upon their balances to the extent of Rs. 1,93 lakhs. They contemplate that they will require no further loan until 1923, but that within the next five years they will have to raise further loans amounting to Rs. 10 crores for the purpose of financing irrigation schemes and schemes for the improvement of communications and sanitation for capital outlay on the development of forests and for large building programmes, the average annual requirements from 1923 onwards being put at Rs. 2 crores.

The Punjab Government have under contemplation large schemes—mainly irrigation and hydro-electric projects—involving a total expenditure of about Rs. 47 crores in the next 20 years, the average annual amount required from loans being put at about Rs. 3 crores *per annum* during the next five years. These schemes include the Sutlej Valley Irrigation Project and the Sutlej River Hydro-Electric Scheme.

The Government of Bihar and Orissa, the Central Provinces and Assam have no schemes of sufficient magnitude to be taken into consideration in this connection, while Burma is still in a position to finance its immediate capital requirements from the balance of rice profits. The total requirements of the provinces for capital projects within the next five years may, therefore, be put at approximately Rs. 18 crores *per annum*.

Unsatisfactory Expedients.

(5) It is obvious from the above review of the financial position and financial requirements of the provinces that action must speedily be taken to improve their financial position if they are to carry on their administration on the present scale and to undertake any of the improvements and schemes which they have in view. We recognise that the gradual reduction and final abolition of the provincial contributions would materially improve the financial position of most provinces. Our honourable colleague Sir Malcolm Hailey impressed, however, upon the provincial representatives that, while we recognised the seriousness of the financial position of most provinces, it would be impracticable

for us to give them any relief in the near future from this source. We think indeed, that the provinces are now fully seised of the difficulties of our own position and of the fact that, in spite of large increases in taxation imposed in our last two budgets and of the economies in expenditure already effected and, we may hope, likely to result from the appointment of Lord Inchcape's Committee, equilibrium between revenue and expenditure in the central budget is not yet attained, and that, until that position has been reached, a reduction of the provincial contributions cannot be looked for. As we have already stated, several provincial Governments have taken steps to enhance the rates and taxes which have been assigned to the provinces and we consider it of the utmost importance that the remaining provinces, in so far as their deficits will not be covered by the further economies, which we understand they are contemplating, should follow suit without delay, for, as your Lordship has pointed out, the financing of provincial deficits by advances from the central Government is at the best a most unsatisfactory expedient.

As regards the provincial programmes of capital expenditure, it is clear that an attempt to carry these through in full will place an unduly heavy strain upon the borrowing resources of the country as a whole, and the provincial representatives were warned that all-India interests might necessitate the postponement of many of the schemes for expenditure debitable to loan funds which provincial Governments desire to take in hand. We need hardly say that we shall give this aspect of the situation very careful attention when exercising our powers under the borrowing rules.

Bombay Suggestion.

(6) With a full knowledge of the financial difficulties and of the steps taken to remove them both in the Central Government and in each province, the conference proceeded to discuss the situation. Among the first subjects for consideration were certain proposals of the Government of Bombay for a revision of the allocation of revenues between the Central Government and the provinces which was fixed by the Devolution Rules on the basis of the recommendations contained in the Montagu-Chelmsford Report and the report of the Financial Relations Committee. In a letter addressed to the Government of India before the conference took place, the local Government pressed for a complete revision of the settlement, to be undertaken after full consultation with the representatives of the provinces. Pending this revision, which the local Government recognised would take time to complete, the Government of Bombay asked for temporary relief by the concession to themselves of one-third of the amount by which the income-tax collected by the central Government in each year exceeded the standard figure of 1920-21. When the conference assembled, the Bombay representatives put forward a suggestion that a system of divided heads might again be considered, and proposed that the local Government should in future receive half the amount collected as income-tax in the Presidency and should cede to the central Government in return one-half of its receipts of land revenue.

(7) The representatives of all the other provinces strongly opposed the entertainment of any idea of reversion to a system of divided heads. We completely identify ourselves with this opposition. The abolition of divided

heads was emphasised as a most important feature of the reforms proposals in paragraph 109 and 200—203 of the Montagu-Chelmsford Report, and was accepted as such without further discussion by all authorities concerned. A clear division of revenues between the central and local Governments was the basis of the whole scheme of reforms, and we consider it axiomatic that, unless such a division is made and entirely separate revenue resources are secured to each Government, there can be no provincial autonomy in any sense of the term.

Bengal's Attitude.

(8) The representatives of the other provinces, with the exception of Bengal, evinced strong disapproval of the proposal to revise the financial settlement. While they laid the greatest possible stress upon the necessity for the speedy reduction and abolition of the provincial contributions, they held firmly to the view that the existing financial settlement, as contained in the Devolution Rules, should be retained intact. They pointed out that the settlement had been made after full enquiry by an impartial committee and had been accepted by Parliament after every province had been allowed to state its views regarding the proposals of the Financial Relations Committee, and they urged that the statutory arrangements so fixed should be rigidly observed. The only difference in the attitude of the Bengal representatives from that of the other provinces was that, while the representatives of other provinces were strongly opposed to any disturbance in the future of the present distribution of revenues between the central and local Governments the Bengal representatives stated that the revenues they had obtained under the existing settlement were insufficient to cover the cost of the ordinary administration as it stood at the time of the introduction of reforms, that the relief afforded by the remission of the provincial contribution was inadequate, and that, while they quite realised that in the existing financial position it was impossible for the central Government to afford any further relief at present, they would, when the financial position of the Government of India improved, again raise a claim that some additional source of revenue should be assigned to them.

(9) All provincial representatives were further most emphatically of opinion that since the allocation of revenues between the central and local Governments and the contributions payable by the local Governments had been definitely fixed by statute, no action should be taken by the Secretary of State in Council or by the Government of India for the benefit of any province which would be likely to prejudice the interests of other provinces, without the latter being given an opportunity of commenting thereon beforehand. In particular, the concession to the Bengal Government was cited as one in which action was taken without any previous consultation, the result, being in the opinion of the other provinces, that their interests had been prejudicially affected. All members attending the conference were unanimously of opinion that, should there be any question of disturbing the settlement embodied in the Devolution Rules, no action should be taken in that direction until the proposal had been referred to, and considered by, an impartial committee before which each province should have an opportunity of stating its case.

No Hope.

(10) We are in entire agreement with the view expressed by the provincial representatives that no question of altering in any way the present financial settlement should be considered except by an impartial committee and after full discussion with each of the provinces. We further agree with the representatives of all provinces except Bombay and Bengal, that the present settlement should be retained intact. We adhere to the view expressed in our first Reforms despatch that it is essential that the financial arrangements between the central and provincial Governments should be free from ambiguity, and we are of opinion that it would be most disastrous to hold out hopes to the provinces of the possibility of the present financial settlement being disturbed—at all events until the provincial contributions have been abolished. Any such hope would have the effect of encouraging the provincial Legislative Councils to sanction new expenditure without undertaking the liability of raising the necessary revenues. Without financial responsibility there can be no responsible Government. We would renew the undertaking, given in the despatch of Lord Chelmsford's Government No. 296, dated June 24, 1920, that we would work our financial policy towards reducing, and ultimately abolishing, the existing financial contributions, but, as stated in that despatch, we can give no undertaking as to the definite period within which the contributions will be abolished or as to the pace of reduction. You are aware of our present financial position, of the heavy additions we have made to the rates of taxation from which our central revenues are derived and of the appointment of a Retrenchment Committee to effect the utmost possible reduction in expenditure. As our uncovered deficit amounts to about Rs. 10 crores and provincial contributions to another Rs. 9¼ crores, it is obvious that, unless a marked revival in trade results in the narrowing of the present gap between revenue and expenditure, very considerable retrenchment will have to be effected or substantial additional taxation imposed before the provincial contributions can be abolished.

(11) Neither can we accept the proposal of the Government of Bombay for a temporary increase of the resources of the local Government by the assignment to it of one-third of the growth of revenue from income-tax. We adhere unreservedly to the views as to this source of revenue which were expressed by Lord Chelmsford's Government in paragraph 7 of their despatch No. 296, dated June 24, 1920. Moreover, any reduction of the amount of growing revenues at the disposal of the central Government must react upon the provinces generally; and the proposal to make such a reduction, even as a temporary measure, without full consideration of the views of other provinces, is open to the objection set forth in paragraph 9 of this despatch. We therefore recommend that this proposal also should be rejected.

(12) If you agree with our conclusions we would ask your permission to publish this despatch and your reply thereto. We have been much impressed by the views expressed by the representatives of the provinces as to the necessity for the publication of a clear statement on the financial position, in order to remove numerous misapprehensions and to indicate clearly to the members of the central and provincial legislatures the nature of their financial responsibilities in their respective spheres.

The despatch is signed by Lord Reading, Lord Rawlinson, Sir W. H. Vincent, Sir Muhammad Shafi, Mr. B. N. Sarma, Mr. T. B. Sapru, Mr. C. A. Innes, and Mr. E. M. Cook.

Views of Secretary of State.

PROVINCES MUST ACT.

The despatch from the Secretary of State is dated London, Nov. 9, and is as follows :—

It appears to me that the conference has served a valuable purpose. Issues of great importance to the stability of the Central and the Local Governments have been carefully explored by officers conversant with the difficulties that at present surround Indian finance. Though complete agreement on all points may not have been attained, it may be hoped that the removal of misunderstandings will result in the cordial co-ordination of the efforts of all concerned in the task of restoring to a sound position the finances of India as a whole.

(2) The financial statements forwarded with your despatch set out the position in the several provinces and justify the serious concern which your Government and I have for some time felt on the subject. The estimated revenue and expenditure of the nine provinces for 1922-23 is as follows :—

(Figures in Lakhs of Rupees.)

	Madras	Bombay	Bengal	United Provinces	Punjab	Burma	Bihar & Orissa	Central Provinces	Assam	Total
Revenue (including new taxation) ...	16,77 (78)	14,92 (60)	10,56 (140)	13,59	11,38	10,01	4,63	5,35	2,08 (3)	89,29 (281)
Expenditure	17,19	15,42	10,37	13,86	12,68	9,88*	5,14	5,72	2,23	92,49
Deficit	42	50	...	27	1,30	...	51	37	15	3,52
Surplus	...	...	19	...	...	13*	...	...	...	32
										3,20
							(Net deficit in all Provinces)			

*Excluding all rice profits figures.

Equilibrium between current revenue and expenditure is only found in two provinces, Burma and Bengal, and in the latter this result has only been attained by the temporary remission of its contribution to the Central Government. The aggregate deficits of the other seven provinces, amounting to 352 lakhs, will be financed by drawing on balances and by loans from the public and the Central Government. It may be remarked, however, that the process of financing provincial deficits in part from the accumulated revenue balances of the past will now practically come to an end, as such balances will be generally exhausted by the end of the current financial year.

(3) I share to the full the regret which your Government and the Local Governments must feel that the expectations held when the financial settlement was drawn up have been disappointed. It was then hoped that the increased resources placed at the disposal of the provinces as a result of that settlement would assist them in financing large schemes of economic and social development, for which the need is generally recognised. In spite of the non-fulfilment of these hopes, it still remains true that the settlement laid down as the result of the Financial Relations Committee's Report has placed at the disposal of Local Governments considerable sums which would not have accrued to them under the pre-existing arrangements; but so far from being available for meeting new demands, the money, for reasons in the main beyond the control of the authorities, has had to be largely devoted to financing the increased cost of administration, due primarily, to the general rise in prices, from which India is suffering in common with other countries of the world.

There has, in these circumstances, perhaps not unnaturally, been a tendency in some quarters to assume that the obvious remedy is the immediate remission or reduction of provincial contributions. But such a measure would do nothing towards increasing the aggregate of the resources available for meeting Central and Provincial expenditure, and so long as the balancing of the Central budget has not been achieved, its only effect would be to transfer responsibility for a further deficiency of revenue to the Central Government. The imposition in the Central Government's budgets of 1921-22 and 1922-23 of additional taxation, estimated to produce 23 crores of additional resources (apart from the yield from increased Railway and Postal charges) leaves a gap which is estimated in paragraph 10 of your Despatch at about 10 crores between the Government of India's revenue and expenditure; and the increase of this deficiency by a general reduction of the provincial contributions would not only be highly prejudicial to the interests of your Government, but would also affect the credit of India as a whole to the detriment of the Provincial Governments. While no relief is, in present circumstances, possible for the provinces from this direction, and no pledge can be given as to the period in which reduction or remission will be practicable, I fully endorse your proposal to renew formally the undertaking that you will shape your financial policy towards the reduction and ultimate extinction of the contributions.

(4) It is, of course, impracticable to make a change in the settlement contained in the Devolution Rules approved by Parliament for the purpose of redistributing the resources of the provinces between themselves. I am, therefore, forced to the conclusion in paragraph 10 of your Despatch, that the present system as laid down in the Devolution Rules should be maintained. The sole alteration hitherto made, *viz.*, that in favour of Bengal, was, as you are aware, only decided on in view of the special recommendation on behalf of that province made by the Joint Select Committee in their Report to Parliament on the Devolution Rules before their adoption. For the reasons which I have stated above, I am also unable to accept the proposals put forward by the Government of Bombay for the modification of the existing settlement.

(5) If the financial stability of the provinces is not to be undermined, with ultimate jeopardy to the Government of India itself, it is impossible to contemplate the continuance of a series of provincial deficits financed by borrowing either direct from the public or from the Central Government. Equilibrium can only be achieved by reduction of expenditure and the adoption of measures which will lead to an increase of revenue.

I note that action already has been taken in some provinces in both these directions. Others doubtless appreciate the necessity for taking similar steps without delay. In this connection all provinces which have not yet done so might with advantage consider forthwith whether they would not be well advised to follow the example of the Central Government in appointing a Retrenchment Committee. It is also not clear whether sufficient attention has been given to the exploration of all possible fresh resources of provincial revenue. The high position which Indian credit has in the past enjoyed was due to the careful management of Indian finances, and a rapid deterioration would be certain to follow if matters are allowed to drift. It is incumbent upon the Local Governments and their Legislatures to face the situation with courage and with a fixed determination to accomplish the balancing of their budgets.

(6) The considerations discussed above have also an important bearing on the capital programme of the Provincial Goverments. I share your view that the financing in full of all the provincial programmes of capital expenditure, together with your own heavy capital requirements, is likely at the best to place an unduly heavy strain on the loanable resources of India even when supplemented by borrowings in the United Kingdom. The danger of this is seriously increased if in addition to borrowing for productive purposes, the provinces have to rely on loans for meeting expenditure which should properly be met from revenue. When the provincial Legislatures realise that failure to secure budget equilibrium cannot but handicap all schemes for social progress and for the development of provincial resources, I feel assured that they will support the Executive Government in the adoption of the necessary measures for remedying the existing position.

(7) I cannot close this Despatch without an expression of regret that the new Provincial Councils should, like the Legislative Assembly, have found themselves, so early in their history, confronted with a financial situation of such difficulty. The task of ordering its finances is a primary function of Government, and I am confident that the heavy burden of responsibilities placed on the provinces will be firmly shouldered.

I approve your proposal to publish your Despatch and this reply.